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World Cup Russia 2018: already the most expensive ever?

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World Cup Russia 2018: Already the Most Expensive Ever?

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Abstract

At USD \$21 billion, the World Cup 2018 in Russia is on course to become the most expensive ever. Cost overruns at this early stage suggest, however, that the final bill will be much higher: the price tag for the 12 stadia has already grown from an initial USD \$2.8 billion to now USD \$6.9 billion, although construction on most venues has not even started. The projected costs place the Russian stadia among the most expensive worldwide. At USD \$11,600, the costs per seat are more than double those in Brazil. In a stagnating ticket market in Russia's premier league, the new venues will exacerbate overcapacities. With the economic outlook for Russia darkening, the World Cup 2018 is likely to become a deadweight to Russian economic development through the misallocation of scarce resources.

Yet Another Expenditure Record

While the heart stopper finish of World Cup preparations drew international media attention to Brazil, troubles are quietly brewing in the next host country. The paint is barely dry on Russia's Winter Olympics facilities, but the nation is already gearing up to host the next mega-event. As with Sochi, which cost at least USD \$51 billion, the World Cup 2018 is en route to becoming the most expensive ever. A 2013 government act (Postanovlenie 518) fixed the *minimum* budget at USD \$21 billion [RUB 660 billion]—and that's just for hosting the event. As the Chairman of the Organising Committee, Igor Shuvalov, remarked: "We have trimmed absolutely everything. There is nothing extraneous, not a single obsolete object. [We have kept in the budget] only what is associated with the World Cup." Yet, even this bare bones event comes in at almost double the current estimated costs of the World Cup in Brazil.

One just needs to look at stadium construction to get an idea of the shape of things to come. Ask people on the streets in St. Petersburg about the new stadium for hometown football team Zenit and everybody has a story to tell. "We've been waiting for years and there is no progress," said a frustrated fan when one of the authors interviewed him on Krestovsky island, site of the future stadium. "It's an insult to the fans and to the city." A middle aged woman in a Zenit scarf remarked: "Even a goat understands that the stadium is just an excuse for oligarchs and bureaucrats to steal money."

Construction on the Zenit stadium began in 2006 with an estimated budget of USD \$200 million and the venue was slated to open in 2009. That turned out to be a pipe dream. Originally named the "Gazprom Arena" for its primary sponsor, the stadium has since lost both the sponsor and the name, leaving the Russian state on the hook for financing. The budget has now risen to over USD \$1 billion, rivalling that of the Wembley Stadium, one of the big financial fiascos of stadium construction. The opening date has been pushed back to

2016, but seasoned residents intimate that it might well take until the 2018 World Cup before it opens its gates.

The expensive complications with the stadium in St. Petersburg seem to foreshadow the fate of the preparations for the 2018 World Cup, to be held in 11 cities in European Russia from 8 June to 8 July 2018 (see the map in Figure 1). As of June 2014, only 3 out of 12 stadia were even close to completion—Moscow's new Otkrytie Arena as well as the stadia in Kazan and Sochi. With Luzhniki and Ekaterinburg's Central Stadium, a further two already exist but are undergoing total renovation. St. Petersburg's stalled stadium is years from completion, and the remaining six stadia must be built from scratch, but work has yet to begin (see Table 2). The problem is that budgets—both for stadium construction and mega-event preparations at large—have a way of ballooning out of control, particularly because the deadline of the tournament's opening is not negotiable. It then falls to the public to pay the bills, on top of the major construction-related disruptions they endure during preparations.

The Troubles of Sochi and Kazan

The residents of Sochi and Kazan have already been through what awaits the other host cities: With the 2014 Winter Olympics and the 2013 World University Games (the so-called Universiade) both cities have hosted recent mega-events. As a result, they already have the majority of infrastructure for the upcoming World Cup—including a stadium, an airport with expanded capacity, road upgrades and an adequate number of hotel rooms. By now, however, residents of Sochi are weary of the continuing mega-event merry-go-round: "I don't have any feelings about the World Cup [in Sochi]," says one resident. "It's too far away to think about. I'm just glad they're using what they've already built. We can't take any more construction".

But the tribulations of Sochi and Kazan do not bode well for the remaining host cities. With 45,000 seats

Kazan-Arena is the second largest stadium in Russia after Moscow's Luzhniki and construction was completed just in time for the Universiade 2013 at an estimated final cost of USD \$471 million—almost double the initial estimate. Sochi's Fisht stadium, the site for the opening and closing ceremonies of the Winter Olympics, has a similar story. The initial budget in 2007 was USD \$56 million and construction began in 2009. It later transpired that work had begun illegally, without the necessary health and safety inspections or environmental impact studies. After numerous delays, labour controversies, worker accidents, environmental violations and huge cost overruns, the Fisht stadium was barely completed before the start of the Winter Olympics at an estimated final price of USD \$780 million.

Construction Delays and Escalating Costs

The travails of stadium construction in St. Petersburg, Kazan and Sochi might multiply for the World Cup. While the Kazan and Sochi projects focused on one location, Russia is now facing the challenge of coordinating eight stadium projects across eight cities at the same time. This means dealing with the diverging demands of different regional elites, different contractors, different stakeholders and different urban settings. Time pressure further compounds this situation. Vitaliy Mutko, the Russian Minister for Sports, admitted in March 2014 that construction is already behind schedule in every location: "The pace of designing the stadiums gives cause for alarm. Deadlines are being broken. There are problems in every region." At that point, seven stadia were still in the design phase.

As an early sign of trouble, costs are already going through the unfinished roof. Between the bid in 2010 and June 2014, forecasts for stadium expenditures have more than doubled from USD \$2.8 billion to USD \$6.9 billion (see Table 1). This makes the 12 stadia more expensive than the 20 stadia built for the World Cup 2002 in Korea and Japan, accounting for inflation. And the USD \$6.9 billion will not be the final estimate. In Brazil, for example, actual costs more than doubled when compared to estimates four years out.

The projected costs place the stadia in Russia among the most expensive worldwide. At USD \$577 million, the average cost per stadium is more than 50% higher than in Brazil and more than 3.5 times higher than for the World Cup stadia in Germany 2006 (see Müller 2014). Per seat, average costs are USD \$11,600 (see Figure 2). Compare this to the average seat in a football stadium for the World Cup 2006 in Germany, which cost about a quarter of that—just over USD \$3,000.

It is hard to blame higher input costs for these price excesses. Labour, building material and land are, if any-

thing, less expensive in Russia than in Western Europe. Technical requirements, too, are comparable, since FIFA stipulates them. A closer look suggests that some of the price inflation might be due to contractors skimming off rents. SportEngineering, a state-owned outfit that belongs to the Ministry of Sport, plays a central role in the contracting process. It became the developer on several of the stadium projects, although it often did not submit the lowest bid in the tenders. It does not, however, conduct much of the work itself, but outsources it to subcontractors. In the course of this outsourcing, SportEngineering keeps a generous portion of the funds for itself—"for responsibility", as it claims. This responsibility has not kept the costs from escalating and the taxpayers from being exposed to overpriced sports venues funded from the treasury.

Excess Capacities

When finished, the Russian World Cup stadia will exacerbate another problem: overcapacities. Stadium construction for the event will increase the number of stadium seats in Russia by nearly half a million. This is more than one-third of the capacity that existed in the country at the time of the bid in 2010. Yet, most Russian football stadia are already too large for the crowds they draw. The 15 clubs in the premier league use about 60% of their stadium capacities. Moreover, going to football matches is not a widespread pastime in Russia, compared to other countries. No more than 0.14% of the population go to see a premier league game. The average number of fans per game is just under 12,000. These attendance figures place Russia at the bottom of the table among larger countries in Europe. The demand for football tickets has not grown since the early 2000s, despite increasing disposable income. These factors make it unlikely that the investment into stadia is going to provide economic returns, raising the spectre of white elephants. Indeed, private investors or clubs have not come forward to fund the stadium construction. This disinterest from the private sector has forced the Russian state to dig into the federal budget for construction costs—just like in Brazil and South Africa.

Some of the outcomes of this building spree are nothing short of Kafkaesque. The Central Stadium in Ekaterinburg was built in 1957 in Stalinist neoclassicist style and re-opened after an USD \$82 million renovation in 2011, just after the World Cup had been awarded to Russia. It is now slated to close again for upgrading for the World Cup. The projected bill: almost half a billion US-Dollars (see Table 1). In the course of the renovation, the seating capacity will expand from 27,000 to 44,000, which is far higher than forecasts for future attendance. Since opposition candidate Evgeniy Roizman became

mayor of Ekaterinburg in 2013 and ousted the incumbent from United Russia, the debate has become more heated. He has fuelled controversies over whether it would be cheaper and less detrimental to the protected architecture to build a new stadium rather than revamp the existing one. Roizman is even skeptical of Ekaterinburg hosting the World Cup at all: "I don't know if it's worth spending 12 to 15 billion [USD \$390 to \$490 million] for four games in Ekaterinburg. I wouldn't hurry to open the city budget to fund an enormous international event that the city might not be interested in."

"If We Pay a Small Fine, We Could Get Out Of This."

If the preparations for the World Cup 2018 continue on their current path, it is clear that the mega-event will suffer from profligacy and produce massive stadium overcapacities. Every one of the stadium projects is already above budget and behind schedule. Yet, even compiling this information is difficult due to the lack of transparency: there is no monitoring of costs and no unified source of information such as a website for the public, neither is the bid book available online to compare promises against realities.

About the Authors

Martin Müller is Swiss National Science Foundation Professor in the Department of Geography at the University of Zurich and does research on mega-events. He has just completed a major research project on the Sochi 2014 Winter Games and is now looking at the World Cup 2018. <www.martin-muller.net>

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For an extended analysis of the World Cup 2018 and its implications for Russia see:

Müller, Martin (2014). Event seizure: the World Cup 2018 and Russia's illusive quest for modernisation. Working Paper <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2368219>

Further reading:

- Gaffney, Christopher (2013). From Culture to Spectacle: the new logics of Brazilian football. *Territorio*, 65(1), pp. 48–53.
- KPMG. (2014). *Razvitie stadionov v Rossii: tochka zreniya KPMG*. Moscow: KPMG.
- Russian Analytical Digest No. 143. The Sochi Olympics. 09 February 2014.

While the inefficient allocation of resources will be welcome for the elites who have a stake in the event, it also increases pressure on the state budget. The economic outlook for Russia is bleak following the crisis in Ukraine, with growth forecasts a mere 0.2% for 2014, capital flight as high as during the 2008 financial crisis and a recent downgrade of the credit rating to just above junk bond status. The Russian state can ill-afford another extravaganza of the magnitude of the Sochi Games.

For Putin, this dilemma should cause headaches. He might find consolation in knowing that he is not the first person in the Kremlin to regret having clinched a mega-event. "This event will cost colossal amounts of money. In addition to massive expenditure, there is also the possibility of all kinds of scandals," wrote Leonid Brezhnev in 1975 about the 1980 Summer Games in a letter to Konstantin Chernenko, then the President of the Games Organising Committee and later Brezhnev's successor. "Some comrades have suggested to me that if we pay a small fine, we could get out of this." Who would not forgive Putin for having similar second thoughts?

Table 1: Stadium Investments for 2018 World Cup

| City | Popula- tion (million) | Stadium | | | Stadium Cost | | | |
|----------------|------------------------------|----------------------|---------|--------|-----------------|-----------------|-----------------|--------------|
| | | Name | Status | Opened | Planned 2010 | Current 2014 | Per seat | Overrun % |
| | | | | | USD million | | USD thousand | |
| Moscow | 11.5 | Luzhniki | Upgrade | 1956 | 240 | 654 | 8.1 | 172.5 |
| | | Otkrytie | New | 2014 | 290 | 458 | 10.4 | 57.9 |
| St. Petersburg | 4.9 | Zenit | New | 2016e | 415 | 1,144 | 16.5 | 175.7 |
| Ekaterinburg | 1.4 | Central | Upgrade | 1957 | 160 | 497 | 11.2 | 210.6 |
| N. Novgorod | 1.3 | Strelka | New | 2017e | 240 | 556 | 12.4 | 131.7 |
| Samara | 1.2 | tbd | New | 2017e | 180 | 431 | 9.6 | 139.4 |
| Rostov | 1.1 | Levber- don Arena | New | 2017e | 225 | 474 | 10.5 | 110.6 |
| Kazan | 1.1 | Kazan- Arena | New | 2013 | 250 | 471 | 10.4 | 88.4 |
| Volgograd | 1.0 | Pobeda | New | 2017e | 210 | 474 | 10.5 | 125.7 |
| Kaliningrad | 0.4 | Baltic Arena | New | 2017e | 210 | 490 | 10.9 | 133.3 |
| Saransk | 0.3 | Yubileiny | New | 2015e | 180 | 490 | 10.9 | 172.2 |
| Sochi | 0.3 | Fisht | New | 2014 | 225 | 780 | 17.8 | 246.7 |
| Average | | | | | 235 | 577 | 11.6 | 147 |
| Total | 10 new, 2 upgraded | | | | 2,825 | 6,919 | | |

Sources: Population data from 2010 census; FIFA, Vedomosti, Interfax, ITAR-TASS, Don News, gazeta.ru, Rossiya2018.rf, wc-2018.ru.; an exchange rate of USD 1 = RUB 30.6 was used for calculation; e=expected

Table 2: 2018 World Cup Stadium Status

| City | Stadium Status as of June 2014 |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Moscow (Luzhniki) | Wholesale refurbishment of historic Luzhniki stadium already underway. Facility will host the World Cup final match. |
| Moscow (Otkrytie) | New Otkrytie arena scheduled to open July 2014. Slated to host World Cup opening.. |
| St. Petersburg | Completion of the Zenit stadium is now 5 years past schedule, costing over USD \$1 billion so far. Estimated completion now 2016. |
| Ekaterinburg | Reconstruction of existing stadium has been delayed due to protected historic status. Work promised to begin no later than September 2014. |
| Nizhny Novgorod | Land is currently being purchased for the stadium. Construction is slated to be completed by 2016. |
| Samara | Stadium design has passed necessary government inspections and construction is nearly ready to begin. |
| Rostov | Regional governor has presented finalized stadium designs. Construction is set to begin as soon as land purchase is complete. |
| Volgograd | Construction of the new stadium will begin as soon as crews complete demolition of the old stadium, scheduled no later than August 2014. |
| Kaliningrad | Supply roads are currently being built to the stadium construction site. Actual work on the stadium is scheduled to begin in summer 2014. |
| Saransk | Stadium work began in 2010 but was halted to ensure compliance with FIFA requirements. Work is scheduled to resume by June 2014. |

Sources: Vedomosti, ITAR-TASS, Interfax, UralInformBuro, Championat-Rostov.ru, Rossiya2018.rf, wc-2018.ru

Figure 1: Map of Stadia and of Transport Infrastructure for the World Cup 2018 in Russia

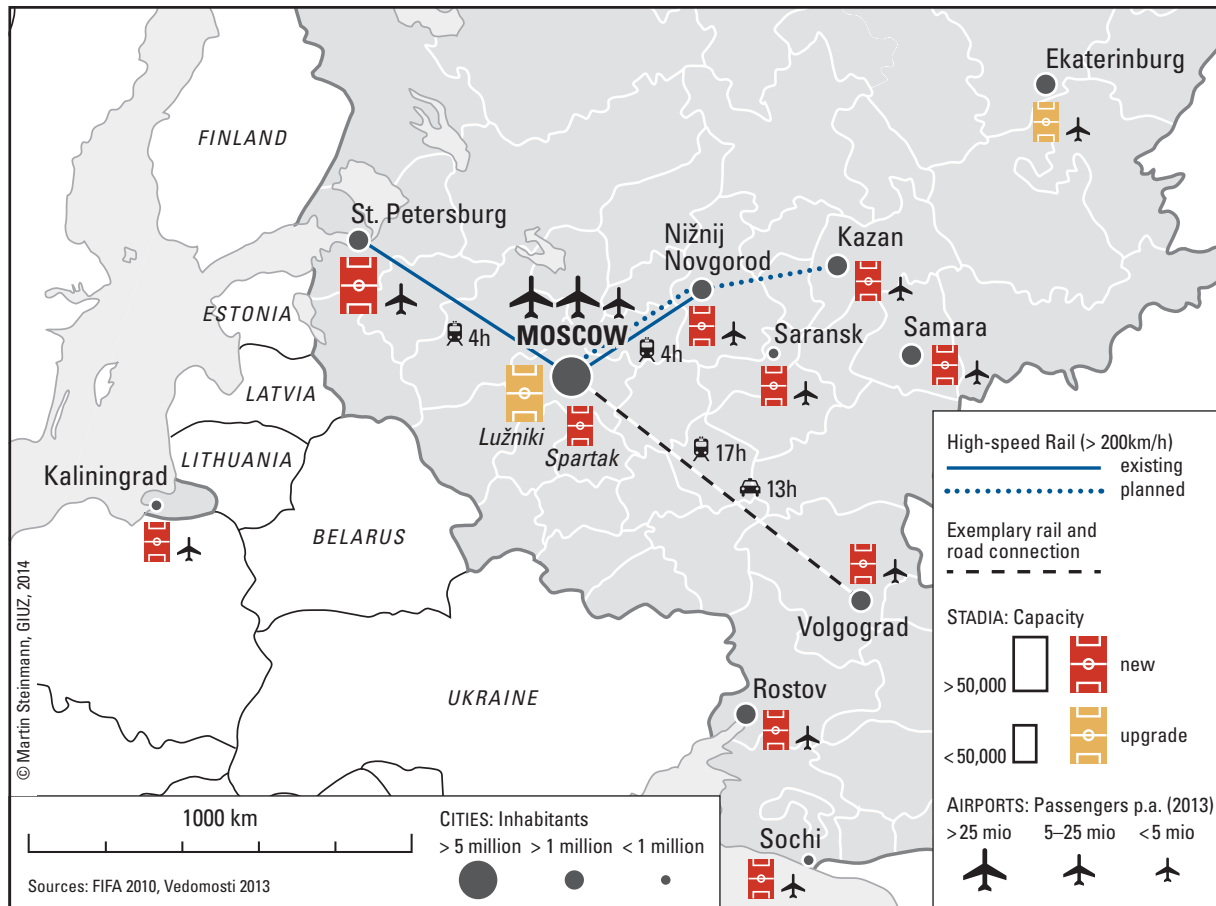
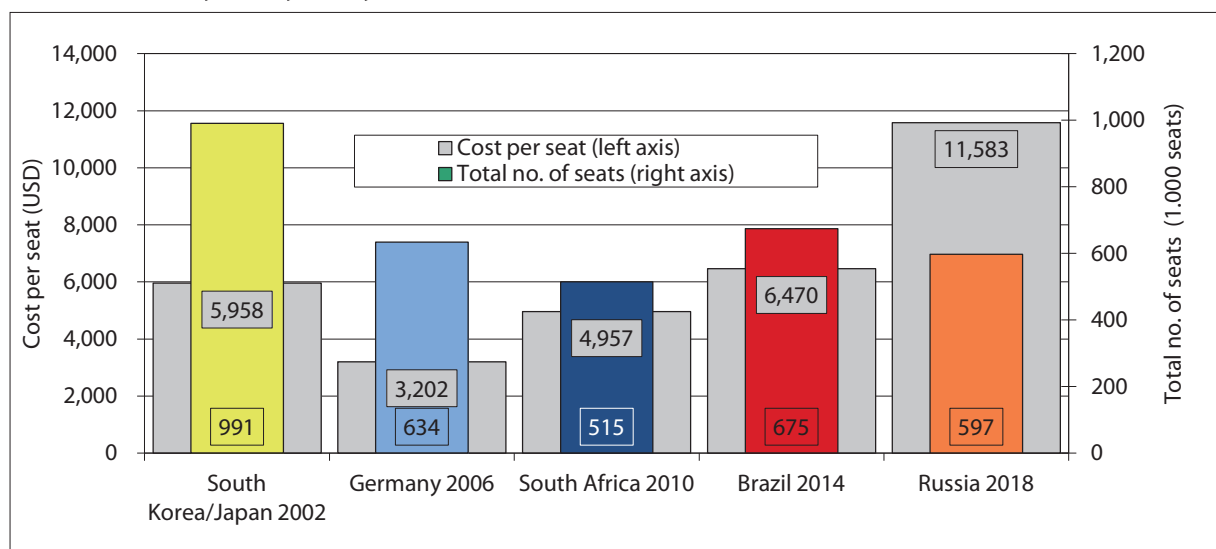


Figure 2: Comparison of Total Number of Stadium Seats and Costs Per Seat for the World Cups 2002, 2006, 2010, 2014 and 2018



Costs were converted from local currency units into USD with the World Bank data in the year of estimation and then deflated to the year 2014 using OECD GDP deflators. Sources: Associated Press; Cabinet of Germany; World Stadium Index; own calculations

ANALYSIS

The Legacy of the Sochi Olympics

By Robert Orttung, Washington

Abstract

Russia invaded Ukraine immediately after Sochi's closing ceremony, quickly shifting world attention from the quadrennial winter sports competition to the reality of warfare in the center of Europe. Ironically, this transition will probably be the main legacy for a mega-event that had avoided many of the disasters commentators had predicted.

Olympic Dreams

With the Olympics' concentrated media focus, intensive investment, and high level political attention, audiences see them as more than a sporting competition. Observers often have high expectations that the games will drive enormous change for the cities and countries that host them.

Sometimes, these expectations have been realized. In the case of Barcelona, the Olympics spurred a major process of urban renewal, creating a great city for residents and an attractive tourist destination. In Seoul, the Olympics played a role in South Korea's transition from military dictatorship to democratic rule.

Expectations that the Olympics would bring political change to China, by contrast, largely were unrealized. The Communist Party continues to clutch power as tightly as ever and the smoggy haze that envelopes Beijing remains a fact of life. During the Games, China did relax some of its media laws under pressure, but these concessions were only temporary and did not apply to local journalists.

Four months after the closing ceremony in Sochi, it is possible to draw some initial conclusions about the legacy of those games. Despite the vast media attention focused on preparations, security, and human rights before the sports competition began, the Sochi Olympics were relatively successful for Russia and the man most responsible for organizing them, President Vladimir Putin. Despite the high cost, the facilities were ready on time. Although temperatures were relatively warm, the competitions proceeded with only a few problems, such as mushy snow. No terrorist attacks materialized, perhaps thanks to extensive preparations. The opening ceremony, in particular, won plaudits for presenting an inclusive model of Russian culture that had not existed before, including bringing back artists who earlier had been excluded from the Russian canon.

International Consequences

While Putin saw the games mainly as a way to appeal to his domestic base of supporters, one of Sochi's goals was to build Russia's image on the world stage. Putin sought to show that Russia could compete with the west-

ern countries who traditionally host the Olympics in terms of event management and organizational prowess. Setting aside the high cost—at \$51 billion in apparent spending, the Sochi Olympics were the most expensive ever—Russia largely succeeded on these terms.

However, the gains that Russia achieved by the successful Olympics quickly evaporated when Russia invaded Ukraine, occupied Crimea, and began providing support for pro-Russian separatists in eastern Ukraine, leading to an increasingly violent insurgency. Before the Olympics, Russia's relations with the West were deteriorating and many prominent Western leaders refused to attend the opening ceremonies, snubbing Putin. The U.S.–Russia relationship, in particular, had been flagging for some time and the criticism of Russia's law aimed at the LGBT community gave the Western leaders reason not to participate in the games, though their athletes all competed.

The Olympic afterglow quickly dimmed as Western countries quickly imposed sanctions on some of Putin's cronies in the aftermath of Russian aggression in Ukraine. Regardless of Putin's motivation in occupying Crimea, there is a strong organizational link between Sochi and Crimea since many of the resources used to prepare the Olympics were repurposed to facilitate the incorporation of Crimea into the Russian Federation. Potentially, special forces units providing security at the Olympics participated in the take-over of Crimea. More obviously, Putin appointed Dmitry Kozak, who had been responsible for organizing the Olympics, as the new curator of Crimean affairs in the Russian government. Additionally, much of the property associated with Olympstroy (office equipment and automobiles), the state corporation set up to organize the games, is apparently being prepared for transfer to the Ministry for the Development of Crimea and regional authorities in the occupied territory.¹ In this sense, the Russian government seems to be treating Crimea like another mega-project, which it seeks to manage with top-down

1 Maksim Tovkailo, "Vlasti Kryma poluchat imuchshestvo 'Olimpstroya'", *Vedomosti.ru*, 10 June 2014, <<http://www.vedomosti.ru/politics/news/27588831/krym-poluchit-nasledstvo-ot-sochi>>

control. While it is hard to predict whether the Kremlin will be able to successfully integrate the Ukrainian province into Russia, it is clear that the task will be extremely expensive at a time when Russia's resources are already tight due to slow economic growth.

Crimea presents another parallel with Sochi in that it is a second Black Sea locale, where the local economy is heavily dependent on tourism, and where the Kremlin is taking a strong special interest in its success. The viability of the new infrastructure in Sochi will depend heavily on the arrival of tourists to use the facilities and amenities built at great public expense. But even as it is promoting Sochi, the Russian government is now offering strong economic incentives for Russian tourists to travel to Crimea to boost the local economy of the occupied territory. According to press reports, the number of tourists in Crimea is down considerably from previous years, predictably due to the unrest and uncertainty surrounding Ukraine and Ukrainian–Russian relations today. Anecdotal evidence suggests that even intrepid travelers from Russian cities who wanted to go to Crimea decided against vacationing there because the banks are not functioning and traveling on the peninsula required bringing large amounts of cash.

The Domestic Audience

The main audience for the Sochi Olympics was always Russia's population. Existing evidence suggests that Russians were generally impressed by Putin's handling of the games and that they increased his popularity. According to the Levada Center, 77 percent of Russians considered the games successful and that they evoked feelings of pride and joy among the hosts.² Two-thirds said that it made sense for Russia to host the games, though 20 percent claimed that it did not. Eighty-one percent said that the games encouraged feelings of greater patriotism in the country, while 56 percent said the games were the personal achievement of Putin, and 73 percent said that they raised Putin's authority. However, 57 percent complained that the "billions spent on the Olympics, should have been spent on the development of Russian cities: the construction of new housing to replace the old, and the modernization of healthcare." Additionally 71 percent said that the country's leadership used the games to boost the prestige of the authorities.

Overall, however, Putin won no more than a 3–4 percent popularity bump from the Olympics. In fact, with that modest gain, the Levada Center's Lev Gudkov thought that Putin's long-term slide in the ratings

was inevitably going to continue.³ Ultimately, it was only the military confrontation with Ukraine that was able to return Putin to approval figures above 80 percent.

Putin also apparently used the games to solidify support for his continued rule among Russia's ruling elite. He awarded medals to the key players in supporting the Olympics in a secret ceremony that took place in the Kremlin at the end of March, according to a report in the newspaper *Vedomosti*, one of the few remaining newspapers independent of Kremlin control.⁴ Among the recipients of the prizes were Interros owner Vladimir Potanin, Sberbank President German Gref, Gazprom Management Committee Chairman Alexei Miller, Russian Railroads Chairman Vladimir Yakunin, Renova Chairman of the Board Viktor Vekselberg, and Chairman of the Board of Basic Elements Oleg Deripaska. These companies were in charge of constructing key elements of the Olympic infrastructure, though most of the funding ultimately came from the state budget.

As many as 500 additional individuals who played a role in the Olympic construction are expected to receive awards in the future. Conspicuously missing from the first list, for example, was Arkady Rotenberg, whose companies were among the largest recipients of construction contracts according to investigations conducted by Alexey Navalny and his colleagues.

Neither the presidential administration, nor *Vedomosti* explained why the ceremony was not held in public. However, the newspaper did remind readers that before the games took place, many observers had assumed that afterwards prosecutors would file criminal cases because of the numerous cost overruns and missed deadlines. However, there has been no such process.

In fact, many of the key elites who benefited from the Olympics now seem to be lining up to profit from construction related to potentially building a bridge to link Russia to Crimea and the World Cup. However, not all of the contractors who worked on the Olympic sites are doing well in the games' aftermath. In fact, two have entered bankruptcy—Mostovik and Tunnel Brigade 44, whose chief has been arrested—and Inzhtransstroy announced its liquidation. Reasons for the contractors' problems included rapidly rising costs, poor project planning leading to unexpected expenses once construction began, and complicated government regulations that were often out-dated and inconsistent from region to region. In some cases, the customer delayed approval

2 <<http://www.levada.ru/03-03-2014/itogi-olimpiiskikh-igr-v-sochi>>

3 Mikhail Sokolov and Claire Bigg, "Putin Forever? Russian President's Ratings Skyrocket Over Ukraine," RFE/RL, June 3, 2014.

4 Maksim Tovkailo, Aleksandra Terenteva, Aleksei Nikolskiy, "Putin nagradil oligarkhov i rukovoditelei goskompaniy za Olimpiadu," *Vedomosti.ru*, 03 June 2014, <<http://www.vedomosti.ru/politics/news/27285521/olimpijskie-geroi#ixzz35Bslo1KA>>

of the plans until the last minute, forcing the contractors to complete all construction in an extreme hurry and therefore raised cost. According to Vedomosti, 98 percent of money spent on the Sochi Olympics went to contractors, but they made little profit from it, though Rotenberg's Mostotrest still managed to make a profit despite working in similar conditions.⁵ However, with the end of the Olympics, there are likely to be fewer major projects in Russia beyond the World Cup and potential construction efforts associated with Crimea.

The City of Sochi

Many questions remain about the impact of the Olympic games on the city of Sochi itself. The Olympic construction brought numerous new sports facilities to the city as well as thousands of new hotel rooms. Long before the sport competitions began, critics wondered whether the \$51 billion investment would produce viable businesses that could thrive after the Olympic competitors left town.

With the games now over, the future of the facilities continues to remain murky. On April 16, Krasnodar Krai Governor Alexander Tkachev claimed that upkeep for the new sports facilities would cost the region 12 billion rubles a year (about \$350 million).⁶ If the facilities are going to be able to earn back some of these expenses, they will need to be put into use quickly.

Before the Russian authorities began promoting tourism in Crimea, they had hoped to bring more visitors to Sochi, particularly Russians who often prefer the cheaper vacation destinations in Turkey. There had been some discussion of allowing gambling in Sochi, to turn it into a Russian Las Vegas, but Putin nixed the idea, claiming it would prevent families from coming to the resort.⁷ After the G8 suspended Russia's membership, Sochi had to scrap plans to host a major summit meeting of the western leaders that had been planned for June.

Now the main event on the calendar is a Formula One race in October. And the Fisht stadium, which hosted the opening and closing ceremonies, is being prepared to host some of the games for the 2018 World Cup. After 2018, it will be the home stadium for a new soccer team that is being formed in Sochi.

But while such big events attract international headlines, Sochi will need a series of smaller festivals to bring in a steady stream of tourists throughout the year. Moreover, the city will have to survive in market conditions. Now, many of the sites built and previously owned by Olimpstroy and other companies are being unloaded to various state owners at the federal, regional, and municipal levels. If the state has to provide support for workers who will be employed in loss-making enterprises, it will take away resources that could otherwise have been used for development investment. Simply dumping huge amounts of the money into the city did not necessarily provide the basis for balanced development. Building up one sector of the economy with extensive state support, such as tourism, will make it difficult to develop other sectors of the Sochi economy because there will be higher expectations for wages and the costs of working there will be too expensive for other industries to thrive.

Using What Was Left Behind

While the Olympic movement is strongly anti-war, Russia's preparations for the Sochi games helped Putin to stir up strong nationalist feelings that helped pave the way for his occupation of Crimea. Materially, some of the organizational and material resources that prepared Sochi are now part of the effort to incorporate Ukrainian territory into Russia. At the same time, Sochi's facilities will be difficult to transform into a viable business operation, particularly since the flow of resources to Crimea will inevitably mean that there is less money available for Sochi and the other regions.

About the Author

Robert Ortung is assistant director of The George Washington University Institute for European, Russian, and Eurasian Studies.

5 Bela Lyaav and Maksim Tokvailo, "Kak podryadchiki bolshikh stroek poluchili ubytki v Moskve i Sochi," Vedomosti.ru, 21 April 2014.

6 Vladimir Volkov, "Sochi. Taina 'Belykh Slonov,'" 22 April 2014 <<http://ej.ru/?a=note&id=24980>>

7 Ivan Nepochurenko, "Sochi Again Under Renovation as Legacy Remains Unclear," Moscow Times, 31 March 2014.

ABOUT THE RUSSIAN ANALYTICAL DIGEST

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The Center for Security Studies (CSS) at ETH Zurich is a Swiss academic center of competence that specializes in research, teaching, and information services in the fields of international and Swiss security studies. The CSS also acts as a consultant to various political bodies and the general public. The CSS is engaged in research projects with a number of Swiss and international partners. The Center's research focus is on new risks, European and transatlantic security, strategy and doctrine, area studies, state failure and state building, and Swiss foreign and security policy.

In its teaching capacity, the CSS contributes to the ETH Zurich-based Bachelor of Arts (BA) in public policy degree course for prospective professional military officers in the Swiss army and the ETH and University of Zurich-based MA program in Comparative and International Studies (MACIS); offers and develops specialized courses and study programs to all ETH Zurich and University of Zurich students; and has the lead in the Executive Masters degree program in Security Policy and Crisis Management (MAS ETH SPCM), which is offered by ETH Zurich. The program is tailored to the needs of experienced senior executives and managers from the private and public sectors, the policy community, and the armed forces.

The CSS runs the International Relations and Security Network (ISN), and in cooperation with partner institutes manages the Crisis and Risk Network (CRN), the Parallel History Project on Cooperative Security (PHP), the Swiss Foreign and Security Policy Network (SSN), and the Russian and Eurasian Security (RES) Network.

The Institute for European, Russian and Eurasian Studies, The Elliott School of International Affairs, The George Washington University

The Institute for European, Russian and Eurasian Studies is home to a Master's program in European and Eurasian Studies, faculty members from political science, history, economics, sociology, anthropology, language and literature, and other fields, visiting scholars from around the world, research associates, graduate student fellows, and a rich assortment of brown bag lunches, seminars, public lectures, and conferences.

The Institute of History at the University of Zurich

The University of Zurich, founded in 1833, is one of the leading research universities in Europe and offers the widest range of study courses in Switzerland. With some 24,000 students and 1,900 graduates every year, Zurich is also Switzerland's largest university. Within the Faculty of Arts, the Institute of History consists of currently 17 professors and employs around a 100 researchers, teaching assistants and administrative staff. Research and teaching relate to the period from late antiquity to contemporary history. The Institute offers its 2,600 students a Bachelor's and Master's Degree in general history and various specialized subjects, including a comprehensive Master's Program in Eastern European History. Since 2009, the Institute also offers a structured PhD-program. For further information, visit at <<http://www.hist.uzh.ch/>>

Resource Security Institute

The Resource Security Institute (RSI) is a non-profit organization devoted to improving understanding about global energy security, particularly as it relates to Eurasia. We do this through collaborating on the publication of electronic newsletters, articles, books and public presentations.

Any opinions expressed in Russian Analytical Digest are exclusively those of the authors.

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